AGC50-5

NABE Outlook

NABE FORECAST PANEL SEES RECESSION AS REALITY
RECOVERY TO BEGIN IN SECOND QUARTER OF 1991

November, 1990

This report presents the consensus of macroeconomic forecasts made by a panel of 51 professional forecasters from the membership of the National Association of Business Economists. This survey is one of three taken regularly by NABE; the other inquiries are the NABE Industry Survey and the NABE Economic Policy Survey.

Lynn O. Michaelis
Vice President, NABE
Chief Economist
Weyerhaeuser Company

John E. Silvia
NABE Public Affairs Committee
First Vice President
Kemper Financial Services

Highlights

* Recession is here. Three out of four NABE forecasters say that we are already in a recession.

* Two thirds of the forecasters expect the recession to last two quarters or less.

* The recession is also expected to be mild in historical terms, with the trough occurring in the first quarter of 1991. Growth in the current quarter and first quarter of 1991 is projected at -1.0% and -0.8%, respectively. By the fourth quarter of next year, growth is forecast to be up to an annual rate of 2.5%.

* Despite the immediate decline, there should be some gain over the four quarters of 1991, i.e., 1.1% after 0.7% in 1990. Unemployment, however, will increase from 5.5% in 1990 to 6.1% in 1991.

* Corporate profits continue to be a disappointment with declines of 4.0% and 1.3% respectively, in 1990 and 1991.

* Interest rates, both in terms of the T-Bill rate and the yield on 30 year bonds, are expected to decline, but by less than 50 basis points from current levels.

* The Federal budget deficit balloons to $258 billion in fiscal 1991 before easing slightly to $240 billion in fiscal 1992. If RTC costs are excluded, the estimates are -$198 billion and -$180 billion, respectively.

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The Business Cycle

A large majority, 75%, say a recession has already begun, with virtually all saying it began in either the current or last quarter. One respondent dates it earlier. Of the 25 percent saying we are not now in a recession, a full three quarters say the probability of a recession has increased since our last survey, and a large majority of these expect a recession to begin by early 1991. Only 15% of NABE'spanel continue to hold to the "no recession" scenario.panel continue to hold to the "no recession" scenario.

If the current expansion is dead, it lived a long and prosperous life of 93 months (assuming an August peak) and was just a year short of the longest postwar business expansion of 1961-1969.

The 1990 Economic Outlook

Economic growth in 1990 is put at 0.7% on a 4th quarter to 4th quarter basis, down from the 2.4% gain of 1989. Both consumer spending and business fixed investment contribute to the slowdown.

Details of the 1990 forecast - using medians for all variables - can be found at the end of this report in Table 1 in the November Survey column. Significant elements of the NABE 1990 outlook are:

* Real GNP is forecast to rise by 0.7% from 1989:Q4 to 1990:Q4; on the year average basis, the increase is 1.0%:

		Forecast 1990	
	Actual 1989	Prior Survey	Latest Survey
Real GNP Growth			
4th Q to 4th Q	2.4%	1.1%	0.7%
Year over Year	2.5	1.2	1.0

* Meanwhile, inflation expectations were notched up a bit further from those of the last survey. Higher oil prices have been the primary culprit.

		Forecast 1990	
	Actual 1989	Prior Survey	Latest Survey
CPI Inflation			
4th Q to 4th Q	4.5%	5.8%	6.4%
Year over Year	4.8	5.3	5.5

* Interesting divergences appear at the sector level in the expectations for 1990. Housing starts and total vehicle sales are down slightly from the expectations of last August, while consumption, industrial production and business fixed investment are up slightly; the latter despite a lowering of expectations for corporate profits. Within vehicle sales, sales of domestic autos have been raised; sales of trucks reduced.

		Forecast 1990	
	Actual 1989	Prior Survey	Latest Survey
Real Consumption	1.9%	1.0%	1.2%
Real Business Fixed Investment	3.9%	0.9%	1.2%
Nominal Corp. Profits (after tax)	-4.4%	-2.7%	-4.0%
Net Exports (bil. of '82 dollars)	-54	-38	-45
Housing Starts (millions)	1.39	1.25	1.22
Auto Sales (millions)	9.9	9.5	9.6
Unemployment rate	5.3%	5.5%	5.5%

Recovery in 1991: Minimal at Best

Real economic growth should pick up somewhat in 1991, while inflation slows.

* Inflation adjusted GNP is projected to rise by 1.1 percent on a fourth quarter to fourth quarter basis; the increase on a year over year basis is forecast at 0.4%. Compared with the August survey, the downshift in economic expectations is clear.

		1991 Forecast	
	1990 NABE Fct	Prior Survey	Latest Survey
Real GNP Growth			
4th Q to 4th Q	0.7%	1.9%	1.1%
Year over Year	1.0	1.4	0.5

* Consumer price inflation is forecast to slow to 4.5% from this years 6.4%

		1991 Forecast	
	1990 NABE Fct	Prior Survey	Latest Survey
CPI Inflation			
4th Q to 4th Q	6.4%	4.4%	4.5%
Year over Year	5.5	4.9	5.2

By sector, the year over year forecast shows some improvement in trade, but no real strength elsewhere. In fact, fixed investment is expected to register an outright decline in 1991.

There is an interesting difference in corporate profits forecasts, depending on the industry in which our panelists reside. Profits are expected to be flat (-0.3%) as projected by forecasters in the goods producing sector, while forecasters from the other two sectors expect declines; trade economists project a decline of 1%, while service economists see a 3.6% decline. These projections may say as much about relative sector performance as they do for the overall profit outlook. Taking the panel as a whole, the 1.3% drop in projected 1991 profits indicates a third year of decline.

Quarterly GNP Pattern

As indicated by the annual numbers, the projected recession is expected to be on the mild side. The panel expects recovery to be underway by the second quarter of 1991 and the annual rate of growth to reach 2.5% by the fourth quarter. Specifically, in terms of quarterly annual rates of change, the median expectations for real GNP are:

Quarter	Rate of Growth
1990$_4$	-1.0%
1991$_1$	-0.8
1991$_2$	0.6
1991$_3$	2.0
1991$_4$	2.5

Budget Deficit

The Federal budget deficit has ballooned over the past year, mainly reflecting the increased expenditures by the Resolution Trust Corporation, but also the impact of the weaker economy. From fiscal year 1990's $220 billion figure, the forecasters expect the deficit to rise to $258 billion in fiscal 1991 before declining modestly to $240 billion in fiscal 1992. RTC costs are expected to contribute $60 billion to the deficit in 1991 and $57 billion to it in 1992.

Interest Rates

Some further declines in interest rates are expected -- both at the short and long end of the yield curve -- in view of the weak economy and the reduction in inflation.

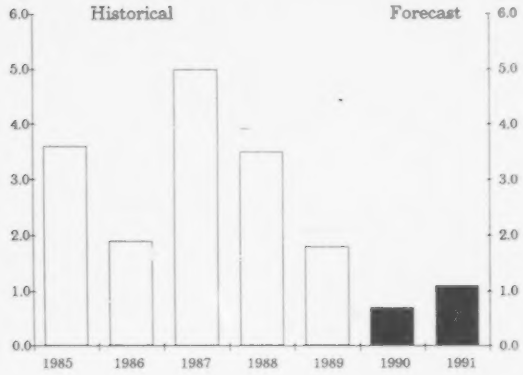
	Dec 1990	June 1991	Dec 1991	June 1992
Bill Rate				
Latest Survey	7.1%	6.7%	6.8%	6.9%
Prior Survey	7.2%	7.0%	7.1%	
Bond Yield				
Latest Survey	8.7%	8.3%	8.3%	8.3%
Prior Survey	8.5%	8.3%	8.3%	

Table 1
SUMMARY OF NABE MEDIAN FORECASTS

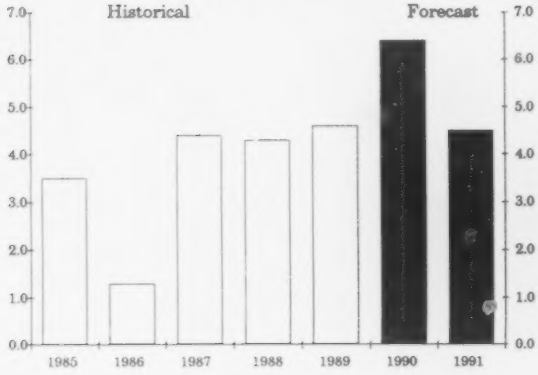
		1990 FORECASTS			1991 FORECASTS			
	1989 Actual	May 90 Survey	Aug 90 Survey	Nov 90 Survey	May 90 Survey	Aug 90 Survey	Nov 90 Survey	
FOURTH QUARTER TO FOURTH QUARTER								
Real GNP	2.4%	2.1%	1.1%	0.7%	2.5%	1.9%	1.1%	
Consumer Price Index	4.5%	4.7%	5.8%	6.4%	4.3%	4.4%	4.5%	
ANNUAL AVERAGES								
Real GNP	2.5%	2.0%	1.2%	1.0%	2.4%	1.4%	0.5%	
Personal consumption expend.	1.9%	2.3%	1.2%	1.1%	2.5%	1.4%	0.7%	
Nonresidential fixed investment	3.9%	2.7%	0.9%	1.2%	3.3%	1.2%	-0.9%	
Net exports (Billions 82$)	-$54.1	-$44.0	-$38.0	-$45.0	-$40.0	-$31.0	-$38.0	
Nominal Magnitudes:								
Merchandise trade balance	-$108.6	-$100.0	$95.0	-$100.0	-$95.0	-$90.0	-$93.0	
Fed budget deficit (FY)	-$152.1	-$154.0	-$165.0	-$220 Actual	-$135.0	-$171.0	-$258.0	-$240*
Corporate profits (after tax)	-4.4%	-1.7%	-2.7%	-4.0%	6.6%	3.0%	-1.3%	
Real Magnitudes:								
Unemployment rate (civ)	5.3%	5.4%	5.5%	5.5%	5.4%	5.9%	6.1%	
Industrial production	2.6%	1.3%	1.1%	1.2%	3.0%	1.6%	0.3%	
Housing starts (MM)	1.39	1.38	1.25	1.22	1.40	1.29	1.20	
Total vehicle sales (MM)	14.8	14.6	14.4	14.3	14.9	14.5	14.0	
Autos	9.9	9.6	9.5	9.6	9.9	9.6	9.3	
Domestic	7.1	6.9	6.8	6.9	7.1	6.9	6.7	
Imports	2.8	2.7	2.7	2.7	2.8	2.7	2.6	
Trucks	4.9	4.9	4.9	4.8	5.0	4.9	4.7	
Inflation and Interest Rates:								
Consumer Price Index	4.8%	4.7%	5.3%	5.5%	4.3%	4.9%	5.2%	
GNP deflator	4.2%	4.1%	4.3%	4.2%	4.0%	4.4%	4.5%	
Treasury bills (3 mo.)	8.1%	7.8%	7.6%	7.5%	7.7%	7.0%	6.8%	
Treasury bonds (30 yr.)	8.4%	8.6%	8.6%	8.7%	8.5%	8.3%	8.3%	

*FY 1992 forecast

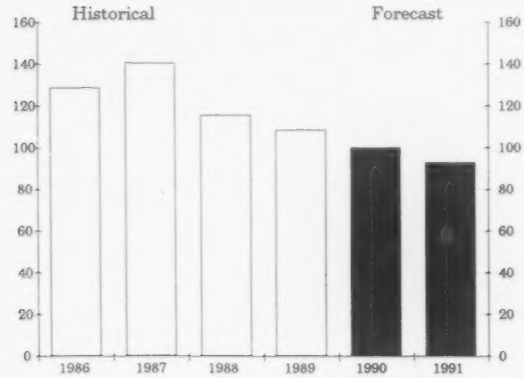
Real GNP
Fourth Quarter to Fourth Quarter
Percent Change



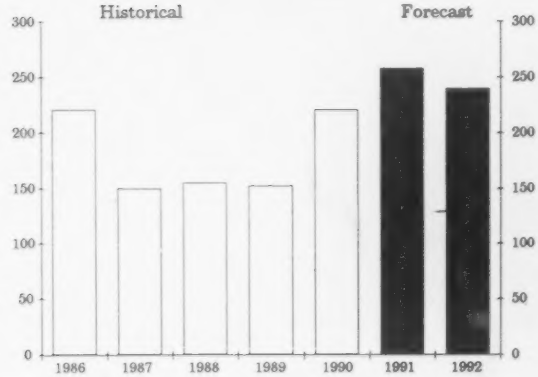
Consumer Price Index
Fourth Quarter to Fourth Quarter
Percent Change



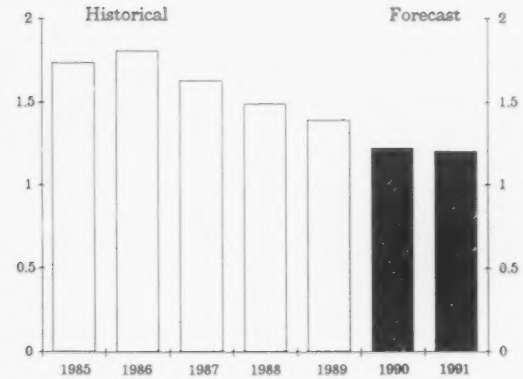
Merchandise Trade Deficit
Customs Value Basis, Annual Data, Billions of $



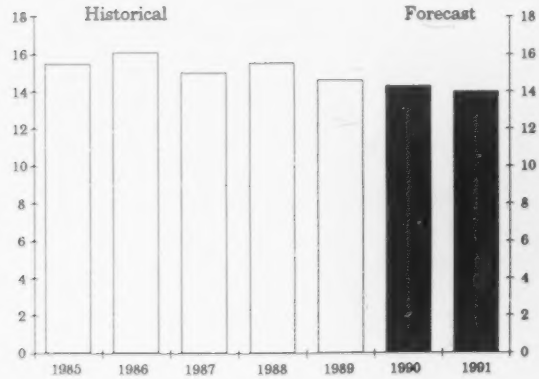
Annual Budget Deficit
Fiscal Years, Billions of $



Housing Starts
Millions of Units



Total Vehicle Sales
Millions of Units



National Association of Business Economists
28790 Chagrin Blvd., Suite #300, Cleveland, OH 44122-4630

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Edward Kianka
Acquisitions Editor
Statistical Reference Index
4520 East-West Highway #800
Bethesda MD 20814

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NABE Outlook

RECESSION EXPECTED TO END BY MID YEAR; INFLATION TO DECLINE EARLY 1992 FORECAST SHOWS REAL GNP GROWTH OF 2.5% TO 3.0%

February, 1991

This report presents the consensus of macroeconomic forecasts made by a panel of 54 professional forecasters from the membership of the National Association of Business Economists. This survey is one of three taken regularly by NABE; the other inquiries are the NABE Industry Survey and the NABE Economic Policy Survey.

Lynn O. Michaelis
Vice President, NABE
Chief Economist
Weyerhaeuser Company

John E. Silvia
NABE Public Affairs Committee
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Highlights

* NABE forecasters continue to think the recession will be shallow by historical standards and will end by the middle of the year.

* 1991 forecasts have been notched down again. Year over year growth in 1991 is now expected to be -0.2%, down from the November consensus of 0.5%

* A slight majority (51%) expect the recession to trough in the second quarter. Another 22% put the trough in the current quarter, while 18% see it in the third quarter.

* Contributing to the recession's end and a recovery beginning in the second half of 1991 are the past easing of monetary policy and the prospects for lower oil prices and a quick resolution to the Gulf War. On the other hand, concern that monetary policy will not ease further, fast enough, and the reluctance of banks to make loans are the two factors most often mentioned that could make the recession longer and deeper than currently expected.

* Resolution of the Gulf War is an important determinant of the 1991 economic outlook to almost 90% of respondents. 48% assume a quick, decisive action, while 36% expect a prolonged war but a clear allied victory.

* Economic forecasters expect better inflation results in 1991; the CPI is expected to increase 3.7% from 1990Q4 to 1991Q4 versus 6.3% in 1990.

* Interest rates, both in terms of the T-Bill rate and the yield on 30 year bonds, are expected to decline slightly between now and the end of June, but then rise throughout the balance of '91 and throughout 1992.

* The Federal budget deficit balloons to $300 billion in fiscal 1991 and then eases slightly to $291 billion in 1992.

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The Scope of Recession

Though it has not yet been made official, virtually all of our respondents say we are in a recession. Seventy six percent of those put the peak in the third quarter of 1990; six percent date it later, while 18% date it earlier.

Fifty one percent expect the trough to occur in the second quarter, while 22% put it in the first quarter and 18% place it in the third quarter. To put this another way, 61% look for the recession to be shorter than the postwar 11 month average, while another 37% think it will be about average in length. As for the recession depth, 78% expect to see less than the postwar average 2.5% decline in GNP (peak to trough quarter) while 15% expect about an average decline.

When asked to list the two factors they thought would make the most positive contribution to limiting the recession, 72% mentioned the easing of monetary policy, 50% mentioned the prospects for lower oil prices and success in the Gulf War. Also mentioned were tight inventory controls going into the recession (37% mentions) and increased exports (26%).

At the same time, when asked what had the greatest potential for making the recession longer and deeper than they currently expected, 35% mentioned the reluctance of banks to make loans; 33% mentioned monetary policy remaining too tight; 20% mentioned debt defaults and 18% mentioned slowing growth or recession overseas.

The 1991 Economic Outlook

Economic growth in 1991 is put at -0.2% on a year over year basis, down from the 0.9% gain of 1990, and lower than the 0.5% that was being forecast last quarter. Both consumer spending and business fixed investment contribute to the contraction.

Details of the 1991 forecast - using medians for all variables - can be found on page 4 in Table 1 in the February Survey column. Significant elements of the NABE 1991 outlook are:

* Real GNP is forecast to rise by 0.8% from 1990:Q4 to 1991:Q4; on the year average basis, GNP declines 0.2%:

		Forecast 1991	
	Actual 1990	Prior Survey	Latest Survey
Real GNP Growth			
4th Q to 4th Q	0.3%	1.1%	0.8%
Year over Year	0.9	0.5	-0.2

* Meanwhile, inflation expectations were lowered a bit from those of the last survey. Presumably the improved behavior of oil prices has been a factor here along with weaker real output.

		Forecast 1991	
	Actual 1990	Prior Survey	Latest Survey
CPI Inflation			
4th Q to 4th Q	6.3%	4.5%	3.7%
Year over Year	5.4	5.2	4.6
GNP Deflator	4.1	4.5	3.7

* On a year over year basis, all sectors of the economy surveyed decline in 1991. As the following table shows, compared with the November survey, all the output components surveyed have been marked down.

	Actual 1990	Forecast 1991 Prior Survey	Forecast 1991 Latest Survey
Real Consumption	1.0%	0.7%	-0.2%
Real Business Fixed Investment	1.5%	-0.9%	-2.1%
Nominal Corp. Profits (after tax)	-2.0%	-1.3%	-3.8%
Net Exports (bil. of '82 dollars)	-38	-38	-26
Housing Starts (millions)	1.21	1.20	1.10
Auto Sales (millions)	9.5	9.3	8.8
Unemployment rate	5.5%	6.1%	6.6%

1992: An Early Look

Real economic growth should pick up in 1992, while inflation slows further.

* Inflation adjusted GNP is projected to rise by 2.7 percent on a fourth quarter to fourth quarter basis; the increase on a year over year basis is forecast at 2.5%.

	Forecast 1991	Forecast 1992
Real GNP Growth		
4th Q to 4th Q	0.8%	2.7%
Year over Year	-0.2	2.5

* Consumer price inflation is forecast to slow to 4.0% from this year's 4.6% The GNP deflator eases slightly to 3.6% from 3.7%.

	Forecast 1991	Forecast 1992
CPI Inflation		
4th Q to 4th Q	3.7%	4.0%
Year over Year	4.6	4.0
GNP Deflator	3.7	3.6

The year over year forecast shows improvement in all surveyed sectors. In fact, the 1992 forecast rebound carries autos and housing starts to levels above both 1990 and 1989.

Quarterly GNP Pattern

As previously indicated, this recession is expected to be milder than the postwar average. However, the panel now expects the economy to fall slightly in the second quarter, whereas, in November it was projecting a rise in that period. And the current quarter is now expected to show a 1.6% decline vs. the 0.8% decline previously forecast. The first *up* quarter of the recovery, now is forecast to be the third quarter of this year. Interestingly, though the panel has pushed the timing of the start of the recovery back, it has not significantly altered the expected rates of growth for the early recovery quarters. For example, in November it forecast a 2.0% rate of growth in the third quarter and a 2.5% rate of growth in the fourth quarter. It now projects 1.9% and 2.5% rates of growth in those two quarters, respectively. In terms of quarterly annual rates of change, the median expectations for real GNP are now:

Quarter	Rate of Growth
19911	-1.6
19912	-0.3
19913	1.9
19914	2.5
19921	2.7

Table 1
SUMMARY OF NABE MEDIAN FORECASTS

		1991 FORECASTS				1992 FORECASTS
	1990 Actual*	May 90 Survey	Aug 90 Survey	Nov 90 Survey	Feb 91 Survey	Feb 91 Survey
FOURTH QUARTER TO FOURTH QUARTER						
Real GNP	0.3%	2.5%	1.9%	1.1%	0.8%	2.7%
Consumer Price Index	6.3%	4.3%	4.4%	4.5%	3.7%	4.0%
ANNUAL AVERAGES						
Real GNP	0.9%	2.4%	1.4%	0.5%	-0.2%	2.5%
Personal consumption expend.	1.0%	2.5%	1.4%	0.7%	-0.1%	2.2%
Nonresidential fixed investment	1.5%	3.3%	1.2%	-0.9%	-2.1%	2.5%%
Net exports (Billions 82$)	-$37.5	-$40.0	-$31.0	-$38.0	-$26.0	-$20.0
Nominal Magnitudes:						
Merchandise trade balance	-$101.0	-$ 95.0	$90.0	-$ 93.0	-$95.0	-$89.0
Fed budget deficit (FY)	-$220.4	-$135.0	-$171.0	-$258.0	-$300.0	-$291.0
Corporate profits (after tax)	-2.0%	6.6%	3.0%	-1.3%	-3.8%	10.0%
Real Magnitudes:						
Unemployment rate (civ)	5.5%	5.4%	5.9%	6.1%	6.6%	6.2%
Industrial production	1.0%	3.0%	1.6%	0.3%	-1.7%	3.1%
Housing starts (MM)	1.21	1.40	1.29	1.20	1.10	1.30
Total vehicle sales (MM)	14.3	14.9	14.5	14.0	13.2	14.5
Autos	9.5	9.9	9.6	9.3	8.8	9.5
Domestic	6.9	7.1	6.9	6.7	6.4	7.0
Imports	2.6	2.8	2.7	2.6	2.4	2.5
Trucks	4.8	5.0	4.9	4.7	4.4	4.8
Inflation and Interest Rates:						
Consumer Price Index	5.4%	4.3%	4.9%	5.2%	4.6%	4.0%
GNP deflator	4.1%	4.0%	4.4%	4.5%	3.7%	3.6%
Treasury bills (3 mo.)	7.4%	7.7%	7.0%	6.8%	5.9%	6.4%
Treasury bonds (30 yr.)	8.6%	8.5%	8.3%	8.3%	7.8%	8.0%

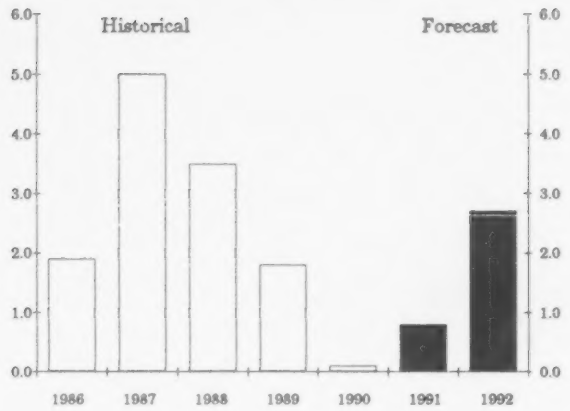
*Some data estimated

Budget Deficit

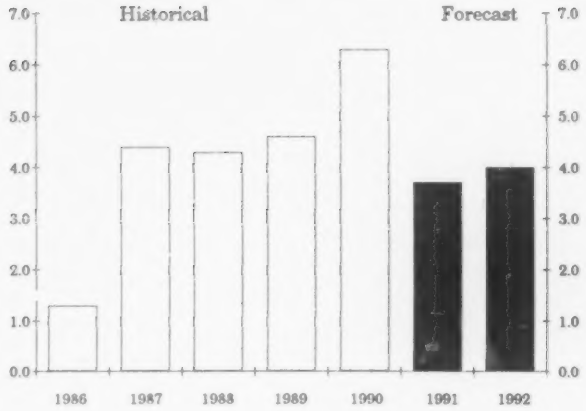
The Federal budget deficit continues to swell. In November our panel was projecting a 1991 Federal deficit of $258 billion, including RTC costs. In this survey, with the advent of the Gulf War and the general lowering of 1991 forecasts, the 1991 projection is $300 billion. And things don't look much better for fiscal 1992. Last November the estimate for 1992 was $240 billion. Now the 1992 estimate is $291 billion. RTC costs are expected to contribute $68 billion to the deficit in 1991 and $63 billion to it in 1992.

(continued on page 6)

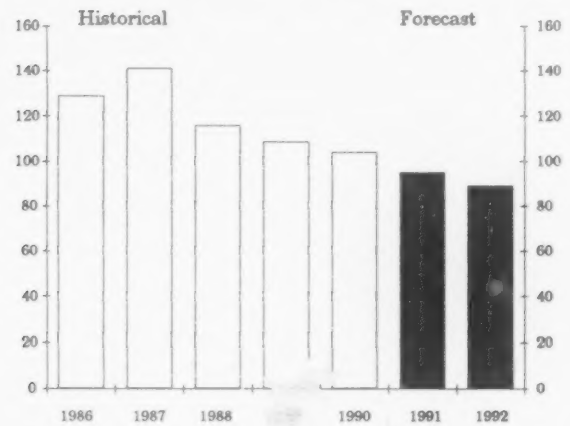
Real GNP
Fourth Quarter to Fourth Quarter
Percent Change



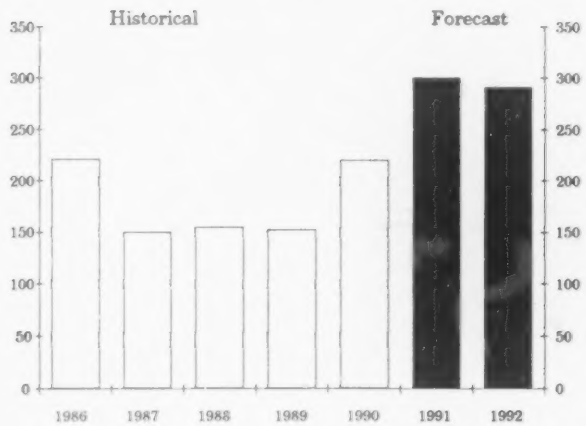
Consumer Price Index
Fourth Quarter to Fourth Quarter
Percent Change



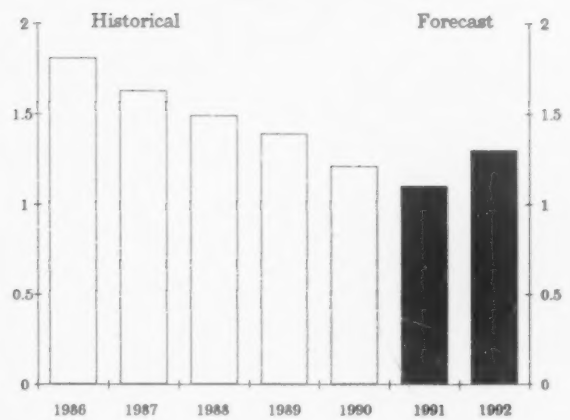
Merchandise Trade Deficit
Customs Value Basis, Annual Data, Billions of $



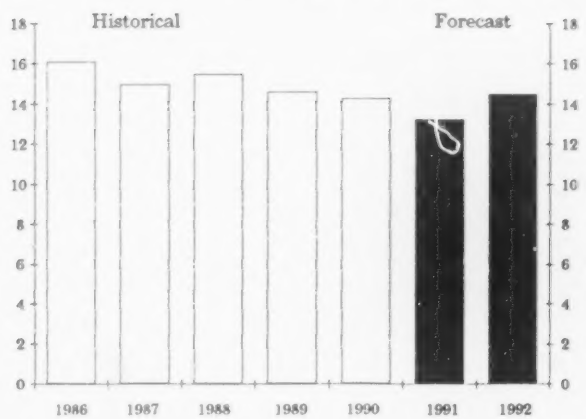
Annual Budget Deficit
Fiscal Years, Billions of $



Housing Starts
Millions of Units



Total Vehicle Sales
Millions of Units



Interest Rates

Interest rate forecasts have been lowered since our last survey, and for the near term, significantly. The T-Bill rate forecast for June '91 is a full 90 basis points lower now than it was three months ago, and the June 30 bond yield is 60 basis points lower. Further, unlike the forecast three months ago that projected a fairly flat interest rate picture over the coming 18 months, the forecast now is for a gradual rise in rates, both short and long, over the next eighteen months.

	June 1991	Dec 1991	June 1992	Dec 1992
Bill Rate				
Latest Survey	5.8%	6.0%	6.5%	6.6%
Prior Survey	6.7%	6.8%	6.9%	
Bond Yield				
Latest Survey	7.7%	7.8%	8.0%	8.2%
Prior Survey	8.3%	8.3%	8.3%	

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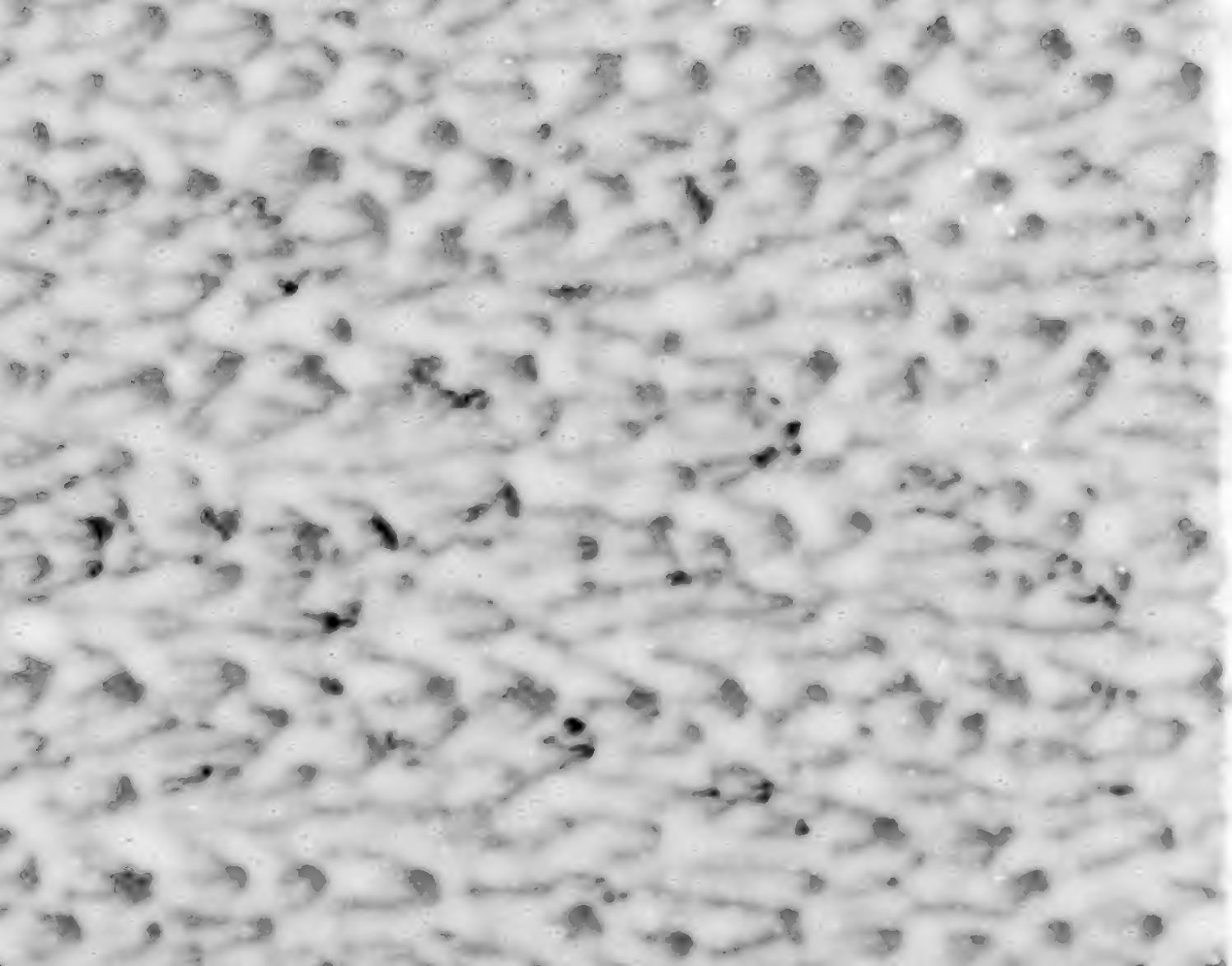
Edward ...
Acquisitions Editor
Statistical Reference ...
4520 East-West Highway ...
Bethesda MD 20814



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NABE Outlook

1991 FORECASTS LOWERED SLIGHTLY; 1992 FORECASTS RAISED INFLATION EXPECTED TO CONTINUE TO FALL

May, 1991

This report presents the consensus of macroeconomic forecasts made by a panel of 58 professional forecasters from the membership of the National Association of Business Economists. Taken in early May, this survey is one of three taken regularly by NABE; the other inquiries are the NABE Industry Survey and the NABE Economic Policy Survey.

Lynn O. Michaelis
Vice President, NABE
Chief Economist
Weyerhaeuser Company

John E. Silvia
NABE Public Affairs Committee
First Vice President
Kemper Financial Services

Highlights

* Most NABE forecasters think the recession is nearing its end; 60% say the trough will be in 1991Q2 and another 27% think the low will be reached in 1991Q3.

* A large majority of the panel (84%) thinks the recession will turn out to have been less severe than normal, but an even larger group (93%) say the early quarters of expansion will be slower than average.

* Spurring the turn from recession to recovery will be the easing of monetary policy, increased consumer confidence and the end of inventory liquidation, according to the NABE panel.

* On a quarterly basis, the median of the panel's real GNP estimates is -0.3% for 1991Q2, and then advances in the range of 2-3% for the rest of 1991 and early 1992.

* Forecasts for 1991 have been lowered slightly. 1991 year over year growth is forecast to be -0.4%, down from the -0.2% forecast in the February survey. 1992 growth is forecast at 2.6%.

* Inflation is expected to slow sharply. Measured on a fourth quarter to fourth quarter basis, the CPI is projected to be up 3.5% in 1991 and 4.0% in 1992 after the 6.3% rise in 1990.

* Treasury bill rates rise about 80 basis points between the end of June and December 1992. But 30 year bond yields remain virtually stable in the 8.0% to 8.2% range over this 18 month period.

* The Federal budget deficit is expected to reach $300 billion in fiscal 1991 and then decline to $280 billion in 1992.

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Recession/Recovery Prospects

The U.S. recession is almost over according to forecasters on the outlook panel of the National Association of Business Economists (NABE). Sixty percent of the respondents to the May survey believe that the recession will end in the second quarter while another 27% place the trough in the third period. A few believe either that the end of the decline will come later (2%), or that the bottom has already been reached (11%).

A variety of fundamental conditions will produce recovery according to NABE panelists. From a list of potential forces likely to generate a new expansion, the economists place the most emphasis upon: easier monetary policy (mentioned by 60% of the respondents), increased consumer confidence (52%), and completion of the inventory liquidation (48%).

Despite the optimism about the ending of recession and impact of the fundamentals noted above, the panel overwhelmingly believes that the expansion will be slower than normal (93% so indicate). What will be the principal determinants of the pace? Among those selected most often by the panel -- each respondent selecting two from the list -- are: monetary policy (48%), availability of bank credit (34%), extent of the inventory cycle (29%), and the pace of growth overseas (26%).

Quarterly Pattern in the Outlook

The quarter-by-quarter GNP forecast, derived by taking the median of the individual panelists' forecasts is shown below. The reported quarters of the recession to date (i.e., 1990Q4 and 1991Q1) are also shown.

Quarter	Rate of Growth	
	Prior Survey	Latest Survey
1990$_4$		-1.6%Actual
1991$_1$	-1.6	-2.8 Actual
1991$_2$	-0.3	-0.3
1991$_3$	1.9	2.2
1991$_4$	2.5	2.7
1992$_1$	2.7	2.8
1992$_2$		2.9

Although the second quarter is viewed by most as the probable trough for recession, the median real GNP estimate for that period is -0.3%. Thereafter output starts to rise, with the late 1991 and early 1992 quarters showing annualized rates of advance in the 2-3% range.

The panel was asked to provide some information on the way the recession will probably appear in the record books:

* 83% agree with the National Bureau of Economic Research that the quarterly peak for the last expansion was 1990Q3.

* Most of the panel (84%) believe the recession -- measured by the decline in GNP from peak to trough -- will be less severe than average.

* The panel is split, however, on the duration of the recession relative to the postwar average of 11 months: 40% believe it will be shorter, 53% think it will be about average, while 7% estimate it will be longer than average.

The 1991 Outlook

Economic growth in 1991 is now put at -0.4% on a year over year basis, down from 1990's 1.0% gain, and lower than the -0.2% forecast last quarter. Both consumer spending and business fixed investment contribute to the contraction.

Details of the 1991 forecast - using medians of the responses for all variables - can be found on page 6 in Table 1 in the May Survey column. Significant elements of the NABE 1991 outlook are:

* Real GNP is forecast to rise by 0.7% from 1990:Q4 to 1991:Q4; on the year average basis, GNP declines 0.4%:

		Forecast 1991	
	Actual 1990	Prior Survey	Latest Survey
Real GNP Growth			
4th Q to 4th Q	0.5%	0.8%	0.7%
Year over Year	1.0	-0.2	-0.4

* The change in inflation expectations since the last survey is mixed. The CPI forecast has been lowered a bit; the forecast for the deflator has been raised.

		Forecast 1991	
	Actual 1990	Prior Survey	Latest Survey
CPI Inflation			
4th Q to 4th Q	6.3%	3.7%	3.5%
Year over Year	5.4	4.6	4.5
GNP Deflator	4.1	3.7	4.0

* As the following table shows major sectors and activity measures of the economy surveyed show year over year declines, 1990 to 1991, except net exports which are expected to show a marked improvement. Relative to the last NABE survey, the consumption forecast is unchanged, while the forecasts for profits and net exports have been raised. Forecasts for the remaining sectors have been lowered.

		Forecast 1991	
	Actual 1990	Prior Survey	Latest Survey
Real Consumption	0.9%	-0.1%	-0.1%
Real Business Fixed Investment	1.8%	-2.1%	-3.5%
Nominal Corp. Profits (after tax)	0.0%	-3.8%	-1.1%
Net Exports (bil. of '82 dollars)	-34	-26	-6
Housing Starts (millions)	1.19	1.10	1.05
Auto Sales (millions)	9.5	8.8	8.6
Unemployment rate	5.4%	6.6%	6.8%

The 1992 Outlook

The expected 1992 pick up has been raised a bit from that projected in the February survey, while inflation expectations have not been altered.

* Real GNP is projected to rise 2.8% on a fourth quarter to fourth quarter basis. The year over year increase is forecast at 2.6%.

	1991	Forecast 1992	
		Prior Survey	Latest Survey
Real GNP Growth			
4th Q to 4th Q	0.7%	2.7%	2.8%
Year over Year	-0.4	2.5	2.6

* Consumer price inflation is forecast to slow to 4.0% from this year's 4.5% The GNP deflator drops slightly to 3.6% from 4.0%.

	1991	Forecast 1992	
		Prior Survey	Latest Survey
CPI Inflation			
4th Q to 4th Q	3.5%	4.0%	4.0%
Year over Year	4.5	4.0	4.0
GNP Deflator	4.0	3.6	3.6

Relative to the previous survey almost all sector forecasts have been raise. See the 1992 forecast columns in Table 1.

Budget Deficit

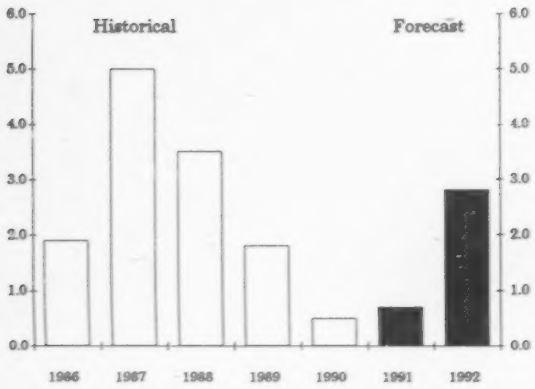
The panel continues to expect the 1991 Federal budget deficit will be $300 billion, up form last year's $220 billion. However, it has lowered slightly its expectation of the deficit in fiscal 1992; a $280 billion deficit now being the median forecast. RTC costs are now projected to contribute $70 and $65 billion to the deficits in 1991 and 1992, respectively. These figures are little changed from the last survey.

Interest Rates

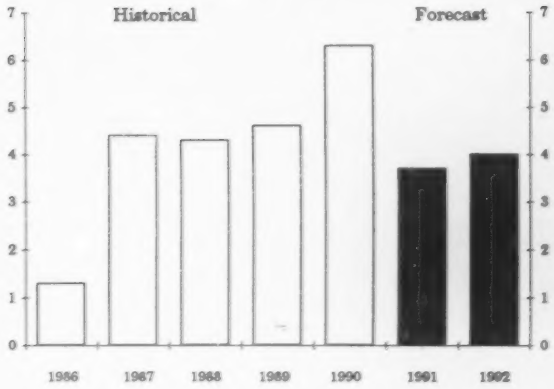
The panel expects short term interest rates to drift upward over the next year and a half as the economic expansion unfolds. Long term interest rates are projected to be fairly stable in the 8 to 8.2% zone over this period. Relative to the survey done in February, the NABE forecasters have lowered their estimates for short term rates for each quarter. The estimates for bond rates, though, have been raised.

	June 1991	Dec 1991	June 1992	Dec 1992
90 Day Bill Rate				
Latest Survey	5.6%	5.8%	6.2%	6.4%
Prior Survey	5.8%	6.0%	6.5%	6.6
30 Yr. Bond Yield				
Latest Survey	8.1%	8.0%	8.2%	8.2%
Prior Survey	7.7%	7.8%	8.0%	8.2

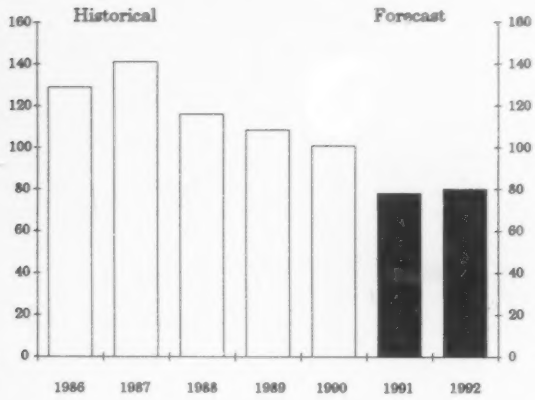
Real GNP
Fourth Quarter to Fourth Quarter
Percent Change



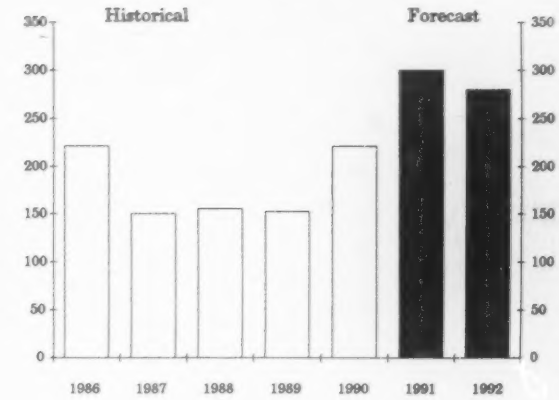
Consumer Price Index
Fourth Quarter to Fourth Quarter
Percent Change



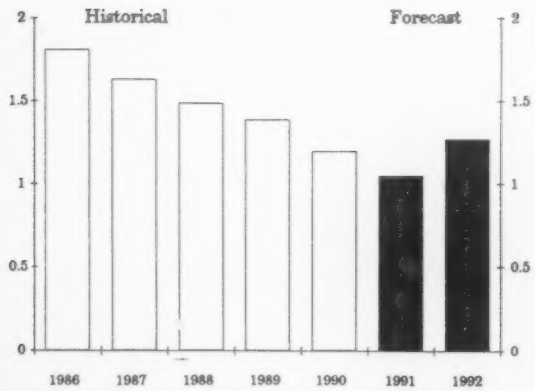
Merchandise Trade Deficit
Customs Value Basis, Annual Data, Billions of $



Annual Budget Deficit
Fiscal Years, Billions of $



Housing Starts
Millions of Units



Total Vehicle Sales
Millions of Units

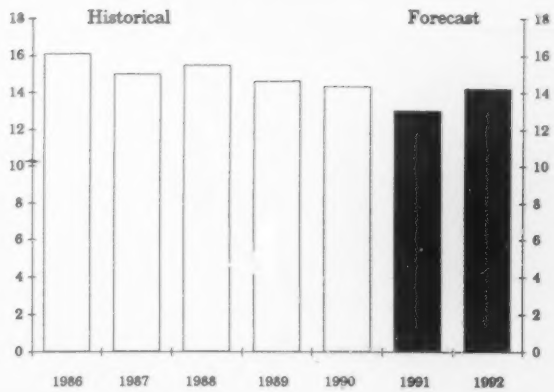


Table 1
SUMMARY OF NABE MEDIAN FORECASTS

		1991 FORECASTS				1992 FORECASTS	
	1990 Actual	Aug 90 Survey	Nov 90 Survey	Feb 91 Survey	May 91 Survey	Feb 91 Survey	May 91 Survey
FOURTH QUARTER TO FOURTH QUARTER							
Real GNP	0.5%	1.9%	1.1%	0.8%	0.7%	2.7%	2.8%
Consumer Price Index	6.3%	4.4%	4.5%	3.7%	3.5%	4.0%	4.0%
ANNUAL AVERAGES							
Real GNP	1.0%	1.4%	0.5%	-0.2%	-0.4%	2.5%	2.6%
Personal consumption expend.	0.9%	1.4%	0.7%	-0.1%	-0.1%	2.2%	2.4%
Nonresidential fixed investment	1.8%	1.2%	-0.9%	-2.1%	-3.5%	2.5%	2.7%
Net exports (Billions 82$)	-$33.8	-$31.0	-$38.0	-$26.0	-$6.0	-$20.0	$-8.0
Nominal Magnitudes:							
Merchandise trade balance	-$101.7	-$90.0	-$93.0	-$95.0	-$78.0	-$89.0	$-80.0
Fed budget deficit (FY)	-$220.4	-$171.0	-$258.0	-$300.0	-$300.0	-$291.0	$280.0
Corporate profits (after tax)	0.0%	3.0%	-1.3%	-3.8%	-1.1%	10.0%	11.3%
Real Magnitudes:							
Unemployment rate (civ)	5.5%	5.9%	6.1%	6.6%	6.8%	6.2%	6.5%
Industrial production	1.0%	1.6%	0.3%	-1.7%	-2.5%	3.1%	3.6%
Housing starts (MM)	1.19	1.29	1.20	1.10	1.05	1.30	1.27
Total vehicle sales (MM)	14.3	14.5	14.0	13.2	13.0	14.5	14.2
Autos	9.5	9.6	9.3	8.8	8.6	9.5	9.6
Domestic	6.9	6.9	6.7	6.4	6.3	7.0	7.0
Imports	2.6	2.7	2.6	2.4	2.3	2.5	2.6
Trucks	4.8	4.9	4.7	4.4	4.3	4.8	4.8
Inflation and Interest Rates:							
Consumer Price Index	5.4%	4.9%	5.2%	4.6%	4.5%	4.0%	4.0%
GNP deflator	4.1%	4.4%	4.5%	3.7%	4.0%	3.6%	3.6%
Treasury bills (3 mo.)	7.4%	7.0%	6.8%	5.9%	5.7%	6.4%	6.2%
Treasury bonds (30 yr.)	8.6%	8.3%	8.3%	7.8%	8.1%	8.0%	8.2%

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28790 Chagrin Blvd., Suite #300, Cleveland, OH 44122-4630

Edward Kianka
Acquisitions Editor
Statistical Reference Index
4520 East-West Highway #800
Bethesda MD 20814

NABE Outlook & Policy Survey

NABE ECONOMISTS SEE SLUGGISH GROWTH IN 1992, BUT NO DOUBLE DIP

September, 1991

This report presents the consensus of macroeconomic forecasts made by a panel of 56 professional forecasters from the membership of the National Association of Business Economists and also the results of a survey of 256 NABE members on economic policy issues. Taken in late August, these surveys are two of three taken regularly by NABE; the other inquiry is the NABE Industry Survey. These results were presented at the NABE Annual Meeting in Los Angeles by Lynn Michaelis, president-elect, on September 23.

Highlights

* Most NABE forecasters (79%) believe the recession ended in the second quarter, while another 9% think it will end in the third quarter.

* Despite the concern about a "double dip" recession, only 11% of the respondents believe there is better than a 50/50 chance of slipping into recession during the next 12 months.

* Even so, 100% of the panelists believe the recovery will be slower than normal, primarily because of monetary and fiscal policy.

* Real GNP growth is expected to pick up slowly, growing 2.5 to 3% over the next 12 months. The median estimate for 1992 is 2.7%.

* The good news is in the outlook for inflation and interest rates. The CPI is expected to be below 4% (3.7%), while Treasury bills drop below 6% (5.8%) on average for 1992.

* Although a small majority (53%) believe monetary policy is about right, 45% still believe it has been too tight.

* Since most of the members (75%) believe the Fed will react to the pace of economic growth, 67% believe the Fed will ease further.

* In the policy survey, the panelists believe deficits through 1996 will be higher than the Administration estimates. The primary reason is a belief that the estimates for GNP growth are too optimistic.

* The survey also suggests the deposit insurance program will cost more than estimated.

* A majority of the panelists believe the lack of health care insurance for 30 million Americans is a serious issue and requires government action.

* The median estimate of long-term growth (1992-96) is 2.7%, with productivity estimated to rise 1.5% and inflation average 4% over this five year period..

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Real GNP: A Slower Than Normal Recovery

Nearly 80% of the respondents felt the recession ended in the second quarter. Another 9% believe it will be over in the current quarter. When asked if they thought there was a better than 50/50 chance of slipping back into recession, 89% gave a resounding "no".

Even so, the NABE group still believes this will be an anemic recovery by historical standards. The panel agreed that growth would be below the average growth of 4-5% in the 12 months after a recession. As can be seen in the table below, growth is expected to improve in the second half of this year and then approach 3% in the first half of 1992.

Quarterly Pattern of GNP Growth

Quarter	Rate of Growth	
	Prior Survey	Latest Survey
19904		-1.6% Actual
19911		-2.8% Actual
19912	-0.3	-0.1% Actual
19913	2.2	2.5
19914	2.7	2.8
19921	2.8	2.7
19922	2.9	2.9

And on an annual basis the forecast is unchanged from the last survey:

	Forecast		
	1991	1992	
		Prior Survey	Latest Survey
Real GNP Growth			
4th Q to 4th Q	0.8%	2.8%	2.8%
Year over Year	-0.2	2.6	2.6

When asked why this would be an abnormally slow recovery, the panel picked four primary causes. Restrictive monetary policy (35%) was the primary cause; followed by the high consumer debt load (20%) and restrictive government fiscal policy at both the federal level (15%) and the state and local level (7%). Interestingly, the panel did not believe international developments (stronger dollar or slower growth overseas) would significantly affect the rate of recovery.

The median growth estimate masks a fairly large range of estimates for 1992. The upper quartile of forecasters expect relatively strong growth (3.5%) in 1992. Even the pessimistic lower quartile still expects growth to average 2%. That the most pessimistic forecasters expect some growth, supports the assessment that another recession seems unlikely. There was no significant difference in the outlook based on the theoretical framework used in making the forecast.

A Closer Look at the Economic Recovery

According to the panel, the projected recovery in 1992 will be driven by domestic demand. Personal consumption and nonresidential fixed investment are expected to grow 2.4% and 3%, respectively. Housing starts are expected to rebound to 1.25 million units from 1.04 million this year. Total vehicle sales are expected to regain 1990 levels of 14.3 million units compared with only 13.3 million units this year. Details of the forecast are shown in Table 1 on page 6.

Consistent with the view that the international sector is not a major force in the recovery, net exports are expected to fall slightly in 1992 when compared with 1991 levels. As a result, the overall trade balance should level out near $75 billion in 1992. This is consistent with the group's view of where the U.S. exchange rate is expected to be.

Prospects for the U.S. Dollar: No Clear Message

Given the importance of net export growth in the last few years, the prospects for the dollar are still an important factor is assessing growth prospects for the U.S. economy -- especially for the manufacturing sector. Two questions were asked: one was about the near-term prospects for the dollar and the other about the longer term (by the end of 1996). Most of the panel (56%) felt the dollar would be relatively stable over the next 12 months. Nearly 30% felt the dollar would appreciate further, while only 11% felt it would depreciate. In the longer term, based on their own policy mix assumptions, only 25% felt the dollar would remain relatively stable. The rest of the group was split on direction. One group (42%) felt the dollar would appreciate by the end of 1996, while 34% felt it would depreciate significantly. Thus the average forecast is that the value of the U.S. dollar against the D-mark or the yen is not expected to be much different in 1996 than exists today.

The Good News: Inflation and Interest Rates

The panel has clearly recognized the improving inflationary trends. As the following table shows, the expectation is that inflation will average less than 4% in 1992. Further, between now and 1996, inflation is expected to average 4%.

		Forecast	
	1991	1992	
		Prior Survey	Latest Survey
CPI Inflation			
4th Q to 4th Q	3.5%	4.0%	4.0%
Year over Year	4.5	4.0	3.7
GNP Deflator	4.0	3.6	3.5

As to interest rates, the median value of the forecasts does not indicate much change between now and mid 1993. As the table below shows, short term rates are expected to drift somewhat higher in 1992 with long term rates remaining roughly unchanged. The range of forecasts for interest rates, is, however, quite high. The top quartile expects T-bills to rise to 7.2% by the end of 1992. The bottom fourth of forecasters expect T-bills to be near 5% by the end of 1992. For 30 year treasury bonds, the top quartile forecast is 9% while the bottom quartile forecast is 7.5%, both by the end of 1992.

	Dec 1991	June 1992	Dec 1992	June 1993
90 Day Bill Rate				
Latest Survey	5.5%	5.8%	6.1%	6.3%
Prior Survey	5.8%	6.2%	6.4%	
30 Yr. Bond Yield				
Latest Survey	8.1%	8.2%	8.4%	8.2%
Prior Survey	8.0%	8.2%	8.2%	

The Twin Deficits are Still Diverging

Economists have never felt the budget deficit and trade deficit were tightly linked and the two are now clearly going in opposite directions. The overall trade deficit has improved dramatically over the recent past and is now expected to average $60-65 billion in 1991 and 1992.

The budget deficit, on the other hand has soared. The deficit is expected to hit $284 billion in the fiscal year ending September 30, 1991, up from $240 billion last year. The deficit is projected to reach $330 billion in fiscal 1992.

The Long-Term Outlook

Each year in this survey the panel is asked to give its view on the five-year outlook (1992 through 1996) for selected key economic variables. This year the panel projects the five year growth rate of real GNP at 2.5%. Productivity is projected to average 1.5% per year and the CPI to rise an average of 4.0% per year over the same period.

ASSESSING VARIOUS POLICY ISSUES

The Budget Deficit and Fiscal Policy

In light of the size and near-term trend in the budget deficit our policy survey panel was asked a battery of questions related to the deficit. When asked which deficit measure mattered the most for economic activity, 57% felt it was the unified budget, while 35% felt it was the deficit excluding deposit insurance and Desert Storm costs. When asked which deficit mattered in assessing the impact on the financial markets and interest rates, an overwhelming majority (74%) felt it would be the unified budget. Only 21% felt the narrow deficit was appropriate in this case.

The next set of questions related to how the panel felt about the Administration's estimates of the budget deficit and the assumptions used in coming to those estimates. Most of the panel (62%) felt the deficit for 1992, excluding the cost of Desert Storm/Shield and deposit insurance would exceed $230 billion. When asked about the deficit estimate for 1996, 32% felt it would be over $200 billion. Another 43% felt it would fall into the $125-200 billion range. Thus most panelists believe the deficit will remain significantly larger than estimated by the Administration through 1996.

The reason is obvious. The panel did not agree with the economic assumptions used. When asked about the assumed growth rates for 1991 and 1992, 74% felt they were too high. When asked about average growth in 1993-96, 69% felt the Administration was too optimistic. Interestingly, the group was in general agreement with the estimates of inflation and interest rates for the forecast period. Nor was the group at odds with the Administration's implied assumption that the natural rate of unemployment in 1996 would be 5.2%. A small majority (53%) felt it should be higher than 5.2%, while 38% felt it should be 5.2% or lower. A small group (12%) did not think it was a meaningful concept.

Finally, the group was asked to consider the Administration's estimate of the cumulative cost of deposit insurance for the 1991-96 period of $142.5 billion. Only 22% felt it was a reasonable estimate. 43% felt the cost would average between $175-250 billion. Another 23% felt the grand total would eventually come in above $250 billion.

Financial Reform: Allow Interstate Banking

In light of the immense cost involved in salvaging the deposit insurance system, Congress is considering a variety of options for reforming the regulation of financial institutions. The panel was asked to rate several options based on their economic merit and political feasibility. The best option, based on its economic merits (rated 4 on a scale of 0 to 5), was the removal of interstate banking restrictions. The group felt this had a better than 50/50 chance of approval. The next two options favored by the panel (3.7 ratings), were shoring up the bank insurance fund and limiting deposit insurance to $100,000 per individual per institution. Other options given, but not particularly desirable or unlikely to be enacted: Allow commercial banks to sell insurance, etc.; eliminate financial oversight board and make the RTC an independent agency; allow other corporations to acquire commercial banks.

Tax Policy: Looking for a Solution

Given the budget agreement stuck last year, there has been little tax policy action this year. There are, however, likely to be more proposals of various tax schemes to generate revenue and undo or redress some of the policies put in place during the '80s. To that end, we asked the panel to assess the recent Gore/Downey proposal to make the tax system more progressive and provide assistance for both lower income and larger families. The panelists did not seem to feel family size should be an issue. Only 29% agreed that the current tax system is insufficiently generous to large families. The group was about equally split on whether the system should be more progressive; while 45% felt it should be more progressive, 43% disagreed.

On the issue of being more generous to families below the poverty line, a clear majority (57%) agreed something needs to be done. The two approaches most favored by the panel in achieving that goal were; (1) more spending on targeted services such as Headstart and Medicaid or (2) a per-child refundable tax credit unrelated to earnings

The Health Insurance Crisis: Adding to the Budget Problem

Recognizing that on any given day over 30 million Americans lack health insurance of any kind, Congress is considering a solution. One approach is to mandate some tax scheme on employers to cover the cost. First, we asked the panel to consider if they agreed there was a problem. Only 2% felt there was not a problem. A large group (27%) felt it was a problem, but not serious enough to require action by the government. The mandated program was felt to be a viable solution to a serious problem by 39% of the panel. Another large group (32%) felt the problem was serious enough to resort to a national health plan similar to that in Canada. Thus 71% of the panel felt the problem was serious and required government action.

With the majority in agreement that the problem is serious, the next questions was about the cost of solving the problem. The vast majority (67%), felt a mandated solution would have a measurable impact on labor costs. This in turn would negatively affect employment and economic growth.

Monetary Policy: Still too Tight?

A bare majority of the panel (53%) believes monetary policy is about right, while 45% feel that policy is still too tight. Very, very few believe policy has been too easy. As noted in the economic outlook section, this is why 35% of that survey group picked monetary policy as the reason for an abnormally slow recovery.

Some 67% of our panel expect the Fed to ease further; 31% expect the Fed to lower the discount rate (an accurate prediction given the September 13th action) while 36% expect the provision of additional reserves. The reason the panel expects further ease is what they see as the current policy goal. When asked what the primary focus of the Fed currently is, most felt it was on economic growth (75%) rather than inflation (17%).

The group was asked to pick the phrase that best describes the likely objective of monetary policy over the next five years. Over 53% felt the Fed would try to get inflation into the 0-2% range. Another 36% believed it would try to restrict overall growth to the 2-3% range. Only 11% would see the unemployment goal of 5-6% as a significant objective. If this assessment is correct and inflation remains near 4% as forecast, this raises some interesting questions about monetary policy during 1992.

Table 1

SUMMARY OF NABE MEDIAN FORECASTS

		1991 FORECASTS				1992 FORECASTS		
	1990 Actual	Nov 90 Survey	Feb 91 Survey	May 91 Survey	Aug 91 Survey	Feb 91 Survey	May 91 Survey	Aug 91 Survey
FOURTH QUARTER TO FOURTH QUARTER								
Real GNP	0.5%	1.1%	0.8%	0.7%	0.8%	2.7%	2.8%	2.8%
Consumer Price Index	6.3%	4.5%	3.7%	3.1%	3.2%	4.0%	4.0%	4.0%
ANNUAL AVERAGES								
Real GNP	1.0%	0.5%	-0.2%	-0.4%	-0.2%	2.5%	2.6%	2.6%
Personal consumption expend.	0.9%	0.7%	-0.1%	-0.1%	0.4%	2.2%	2.4%	2.4%
Nonresidential fixed investment	1.8%	-0.9%	-2.1%	-3.5%	-3.9%	2.5%	2.7%	3.0%
Net exports (Billions 82$)	-$33.8	-$38.0	-$26.0	-$6.0	-$11.0	-$20.0	-$8.0	-$17.0
Nominal Magnitudes:								
Merchandise trade balance	-$101.0	-$93.0	-$95.0	-$78.0	-$70.0	-$89.0	-$80.0	-$75.0
Fed budget deficit (FY)	-$220.4	-$258.0	-$300.0	-$300.0	-$282.0	-$291.0	-$280.0	-$333.0
Corporate profits (after tax)	0.5%	-1.3%	-3.8%	-1.1%	-1.0%	10.0%	11.3%	10.5%
Real Magnitudes:								
Unemployment rate (civ)	5.5%	6.1%	6.6%	6.8%	6.8%	6.2%	6.5%	6.5%
Industrial production	1.0%	0.3%	-1.7%	-2.5%	-1.9%	3.1%	3.6%	3.8%
Housing starts (MM)	1.20	1.20	1.10	1.05	1.04	1.30	1.27	1.25
Total vehicle sales (MM)	14.3	14.0	13.2	13.0	13.0	14.5	14.2	14.3
Autos	9.5	9.3	8.8	8.6	8.7	9.5	9.6	9.5
Domestic	6.9	6.7	6.4	6.3	6.3	7.0	7.0	7.0
Imports	2.6	2.6	2.4	2.3	2.4	2.5	2.6	2.5
Trucks	4.8	4.7	4.4	4.3	4.4	4.8	4.8	4.8
Inflation and Interest Rates:								
Consumer Price Index	5.4%	5.2%	4.6%	4.5%	4.3%	4.0%	4.0%	3.7%
GNP deflator	4.1%	4.5%	3.7%	4.0%	3.9%	3.6%	3.6%	3.5%
Treasury bills (3 mo.)	7.4%	6.8%	5.9%	5.7%	5.6%	6.4%	6.2%	5.9%
Treasury bonds (30 yr.)	8.6%	8.3%	7.8%	8.1%	8.3%	8.0%	8.2%	8.2%

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National Association of Business Economists
28790 Chagrin Blvd., Suite #300, Cleveland, OH 44122-4630

Edward Kianka
Acquisitions Editor
Statistical Reference Index
4520 East-West Highway #800
Bethesda MD 20814-